

# GAMING

INTERNATIONAL

## Featured European Interviews



Dianne Thompson,  
CEO Camelot Group Plc.,  
Operator of the U.K.  
National Lottery



Ales Husák,  
Chairman of the Board  
and General Manager,  
Sazka s.a.,  
Czech Republic



Marco Sala,  
Managing Director of  
Italian Operations for  
Lottomatica SpA

## Featured U.S. Interviews



Ernie Passallaigue,  
Executive Director,  
South Carolina  
Education Lottery



John Musgrave,  
Director,  
West Virginia Lottery



Dale Penn,  
Director,  
Oregon Lottery



Connie Lavery O'Connor,  
Senior Vice-President and Chief Marketing Officer, GTech Corp.  
Recipient of 2008 Major Peter J. O'Connell Lottery Industry  
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# GAMING

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### PUBLIC GAMING INTERNATIONAL

PUBLISHER & PRESIDENT  
Paul Jason  
[pjason@publicgaming.com](mailto:pjason@publicgaming.com)  
EXECUTIVE VICE PRESIDENT  
Susan Jason  
[sjason@publicgaming.com](mailto:sjason@publicgaming.com)

EDITOR  
Mark Jason  
[mjason@publicgaming.com](mailto:mjason@publicgaming.com)  
ART DIRECTOR  
Lisa Robinson

HONORED FOUNDERS  
Doris Burke  
Duane Burke

CONTACT PUBLIC GAMING  
Tel: (831) 277-2340  
(800) 493-0527  
Fax: (206) 374-2600  
(800) 657-9340

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[info@publicgaming.com](mailto:info@publicgaming.com) • [editor@publicgaming.com](mailto:editor@publicgaming.com) • [sales@publicgaming.com](mailto:sales@publicgaming.com)

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# SMART-TECH 2008

## CONFERENCE SCHEDULE

### MONDAY, April 28

10:00 am - 3:00 pm: Setup for Exhibits and Registration Open

*5:00 pm – 7 pm : Welcome Reception in Colonial Ballroom, Parade of Exhibitors*

### TUESDAY, April 29

8 AM Continental Breakfast

9 AM – Noon Conference Welcome

**Paul Jason**, CEO, Public Gaming Research Institute

**Ernie Passailaigue**, Executive Director, South Carolina Education Lottery and President of NASPL

Presentations and Panel Discussion Topics:

\* Success Strategies and Innovations in the Marketing of Traditional Lottery Games, Retaining the Loyalty of the Traditional Games Player

Moderator: **Clint Harris**, Executive Director, Minnesota Lottery and Past President NASPL

\* **Peter DeRaedt**, President, Gaming Standards Association

\* Innovations in Distribution, “Big Box” initiative and more...

Moderator: **Margaret DeFrancisco**, CEO, Georgia Lottery Corporation

\* Keynote Speech – Platinum Sponsor **Tom Little**, CEO, Intralot USA

Noon – 1:00 pm Lunch

1:00 pm – 5:00 pm :

\*\*\* 2008 Major Peter J. O’Connell Lottery Industry Lifetime Achievement Award Presentation:

**Connie Lavery O’Connor**, Sr. V.P. & Chief Marketing Officer, GTECH Corp.

Presentations and Panel Discussion Topics

\* Beyond ‘Privatization’: Lottery Financial and Ownership Structures

Moderator: **Gordon Medenica**, Director, New York State Lottery

\* Impact of Federal Regulatory Policy on State Lotteries, Internet and Mobile Gaming

Moderator: **William Murray**, Deputy Director & General Counsel, New York State Lottery

\* Leadership Roundtable Looks at the Future

Moderator: **Dr. Ed Stanek**, Former CEO Iowa Lottery, Current Lottery Industry Statesman

*5:00 pm to 7:00 pm: Reception in Colonial Ballroom*

### WEDNESDAY, April 30

8 am Continental Breakfast

9:00 am – Noon:

\* Operational, Financial, and Logistical Challenges of Converting to New Central Server Partner

Moderator: **Ernie Passailaigue**, Executive Director, South Carolina Education Lottery

President of NASPL

\* **Linh Nguyen**: Creative Branding and Positioning of Lottery Organizations

SMART-IDEAS Presentations and Awards

SMART-TECH Product of the Year Presentations and Awards

Noon to 1:00 pm Lunch

1:00 pm – 4:00 pm: Panel Discussions

\* Integrity and Security at the Retail Level

\* European and WTO Policy and Decisions Impacting Cross-Border Gaming

4:00 pm : Program Wrap, Conference Adjourns, Evening Open

*In addition to those listed on Program*, Presenters, Moderators, and Panelists include: From Lotteries ... DE: Wayne Lemons; FL: Leo DeBenigno, Pat Koop; MI: Scott Bowen; MT: George Parisot; PA: Ed Trees; RI: Gerry Aubin; SC: Tony Cooper, Carl Stent, David Barden, Ann Scott, Lynette Crolley, Leslie Vang, Melvin Gladney, Anthony McNeil, Ernestine Middleton, Bethany Parler, Remmele Mazyck, Mary Margaret Hopkins; VT: Alan Yandow; WV: John Musgrave; Commercial and Non-Lottery Presenters and Panelists: Gordon Graves, Aces Wired; Sam DePhillippo and Craig Scott, Camelot Plc.; Kevin Mullaly, GLI; Paul Mathews, IGT and WagerWorks Inc.; Investment Banking Exec’s including Jeff Hyman, Nora O’Strovska; Attorneys Specializing in Federal Regulatory issues including Sam Basile, Robert Burka, Kim Stein.

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# An Interview with Dianne Thompson

CEO of Camelot Group Plc. (Operator of the National U.K. Lottery)

The *significant majority* of this interview is continued on-line. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.



Dianne Thompson

**Paul Jason PGRI, (PG):** *In reviewing press releases, what strikes me is how you seem to proactively make yourself, your strategies, and your agendas as transparent as possible, as opposed to waiting to be challenged to do so. Likewise, kind of a similar thing, you raise the bar on yourself. Of course, this reflects an integrity and serious commitment to CSR. But it also seems to me to be good business strategy.*

**Dianne Thompson (DT):** I think you're absolutely right. Innovation is the core of everything we do. The lottery launched here in November '94. I've been here 11 years now, so I can't take the credit for what was a very, very successful launch. But after a fantastic first few years the lottery in this country went into decline, as most lotteries do around the world after the initial excitement around them dies down. People who understand lotteries said that they thought it would be almost impossible for the UK lottery to get back into growth. The reason being that we operate in a very tight box – that was the way the lottery was set up back in 1994 and the government had a very clear vision of what they wanted our lottery to do in this country and how it should be run and operated. And so the sort of things that many lotteries do, be it sports betting, doing slot machines, rapid draw games like keno, or run the casinos like Sweden does, for example, we weren't allowed to do any of that, we can only do what we would refer to as scratch card and draw-based games. And so we realized that we would need a different approach to try and turn that corner and get our lottery back into growth.

The strategy I lead on and as a team we developed was based on two main planks. The first was building a portfolio of games. When you look around the world, that's what most of the other lotteries have done – of course we're one of the youngest lotteries in existence, so we do have the benefit of being able to see what has worked and what hasn't worked internationally and in Europe. And there's a great sense of co-operation between the various different lotteries which I think is great, and something that really encourages excellence and helps us all learn from each other for the benefit of our players and beneficiaries.

Secondly, we realized that we needed to create new channels of distribution – to give people new ways to buy their lottery tickets to keep us with shifting consumer trends as well as develop-

ments in technology and the way people use technology. And as I said earlier, innovation has been at the core of all of what we've done. We got back into growth in 2003-04 fiscal, and over the last four years there has been a £336.9 million increase in sales – on average that equates to an increase of over £80 million for each of the last four years. And at the half-year, results showed a rise in like-for-like sales of £35.4 million (1.5%) from £2,343.0m to £2,378.4m which we were obviously very pleased to see.

So now we've got a very good range of games, and we sell tickets for draws and Instant Win Games on the Internet, on interactive television, and on mobile phones. Plus we introduced National Lottery Fast Pay a couple of years ago. I don't know if you've seen Fast Pay – it's our world-leading system whereby you can buy your lottery tickets at supermarket checkouts, and now checkouts in other stores, along with the rest of your groceries. Sales via National Lottery Fast Pay rose over 80% from the previous year to £95.3 million in 2006/7 – so you can see that it's really popular with players and lots of our other retailers are keen to have the same systems introduced which we will be working with them on in the future.

To put this all into context, last year over 36% of the sales that we had came from things, that is to say games and channels that we didn't have at the start of the second license, in 2002.

I don't mean this to sound arrogant, but we've got some really great examples of things that we've driven through here – things that we have taken the lead on and that have worked very well. For example, we put the idea for a joint European lottery game in our bid for the second license. Some people said it would be impossible to do, there was no way that France, Spain and Britain with three different time zones, three different languages and two different currencies, would ever be able to create a game together. And of course we did – and today EuroMillions, which is what the game is called, is played in nine different countries across Europe, there are 10 lotteries involved and it has created Europe's largest ever lottery jackpot with a £126 million prize for a draw in February 2006. We launched the game with France and Spain in the first place, and we launched it on time and on budget. It was a big group effort, but I do have to say that we really pushed that forward and were the driving force behind the initial idea and then in bringing the game to fruition.

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# An Interview with Ales Husák

Chairman of the Board & General Manager of SAZKA a.s., Czech Republic.



Ales Husák

Topics include success strategies for the hyper-competitive sports betting and slot machine markets, the future of retail distribution and 'Hyper-Markets', increasing the value and profitability of the lottery portfolio of products to the retailer, the central system and information management systems of the future, the politics of cross-border gambling issues, the relationship between the EU Commission and remote gaming operations and member nations, and much more!

The *significant majority* of this interview is continued on-line.

Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.

## Introduction

SAZKA is a unique operation. A central theme of the Ales Husák/SAZKA Lottery story is how this former "Eastern Block" nation now operates as a fearless and innovative leader in free market capitalism. Ales Husák leads a company that operates traditional lottery games and generates significant funds for Good Causes. But SAZKA is a complex and diversified enterprise. Following is a discussion about some of those things that make SAZKA unique, including the building of SAZKA Arena. What we are not able to fully share is the richness of the SAZKA Arena experience, its breathtaking grandeur, the technological awesomeness of the facility, the dramatic story of its creation, or the cultural import of this modern day monument to the classical heritage that is Prague. In spite of the fact that building the Arena has occupied a large portion Ales Husák's focus over the past few years, his gaming operations are what provide the income to pay for it and so that is the focus of this discussion. Fortunately, no discussion with Ales Husák would be complete without some digressions!

**Paul Jason, PGRI (PG):** *You referred to some differences between the United States and the Czech Republic and Europe in general in terms of freedom and perhaps willingness or ability to innovate and change. We were talking about a more general cultural and political disposition. Does that apply to the lottery industry as well? For instance, you seem to have more freedom to diversify your business interests outside and beyond the original charter of gaming and lottery, like cellular service and sports arenas. How do you decide where and how and when to expand?*

**Ales Husák (AH):** This would be a theme for a thesis work. But I will try to put it in a nutshell, and in a social perspective rather than a human perspective because people are all alike in the whole world. The lottery businesses in the US and in Europe are like two different worlds. This applies to gambling in general,

not only to lotteries. On the one hand, the U.S. pretends to be the world's greatest bastion of ethics and morality. On the other hand, they also generate the most pornography in the world. And the same is in gambling. On one hand the market is very strictly regulated. On the other hand there are cities like Atlantic City, Reno and Las Vegas whose gaming concept would not be applicable and would not be permitted in any European city. So these are our very ultimate or two extremes. I'm not criticizing. I like the Las Vegas concept very much. I would like to apply it here but it's not applicable in European conditions. On the other hand, Europe allows a great deal of freedom to the lottery business but it is treating casinos like the most strict church in the U.S. These European regulations are too protective. So if we stick to the field of lotteries, U.S. lotteries are dealing with problems which have been solved in Europe long ago. For instance, most of the European lotteries have been privatized. It's immaterial that the government owns it by way of proxies or by way of mediators. The government owns these companies either fully or in some percentage but it does not manage them. But in most U.S. states, the governor and legislators get involved in management decisions. So the European lotteries have much more opportunity and flexibility to innovate and grow the business. But this freedom comes with some disadvantages. In the U.S. each state really protects its lottery in the marketplace. Here in Europe, even if the government owns 100% of the lottery, typically it does not protect the lottery from competition. The lottery is left to fend for itself in the marketplace. And in addition to this, in Europe there are many companies which are fully private, such as ours, and don't even have a monopoly. The Czech legislation does not guarantee a monopoly to our company. Anybody who meets the conditions set forth by the government, conditions that we are required to meet, is free to establish a lottery. In spite of this, we are the only lottery company. This shows the basic

difference. Success or failure is determined in the marketplace and is therefore management-based here, just like private corporations in the U.S.

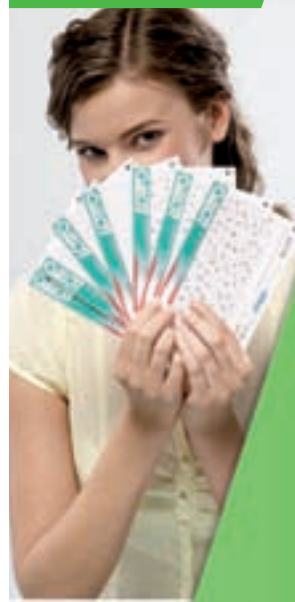
**PG:** *Most European managers have held the position for many years, haven't they? So they acquire experience and knowledge that enables them to compete and succeed.*

**AH:** The typical European Lottery Director has been in the position for 20 years or more. In the US it might be more like 20 months, actually a little more than that, isn't it? And so the lotteries move the management of their lotteries into the hands of their suppliers in the U.S. Not here in Europe. I have been in my position for 13 years and many of my colleagues have been 20 or up to 30 years in their position, even if the lottery is government owned. The boards of directors are changing, of course, but not management. And this enables the European lotteries to develop in a much different way, learning from experience and changing, innovating, and hopefully improving along the way. The European lotteries have more time for development and for building up their companies. This is the principle difference. Of course the first objective is generation of money for good causes, same in our case as in yours. But here, nobody intervenes into the matter of costs. As long as the lottery generates money for good causes nobody tells us how to manage our budgets and expenditures like advertising. And, too, U.S. lotteries are losing because they do not keep contact with the world market. Isn't it the case that very few U.S. lottery directors are allowed a budget to travel abroad for a lottery business trip? This is impossible in Europe. All European Lottery Directors have visited the United States, China, Japan, Canada, Australia, and other places many times. There is a very dynamic exchange of experiences so here we come to the point which is the drawback or the disadvantage of American lotteries. Their world is more and more closed. They are not exchanging their experience with the rest of the world, they are managed by the government. We all know that governments, not just the U.S. but all governments, are never the best managers of businesses and assets. One director told me that the governor's office even told him who to hire.

**PG:** *You are not granted a monopoly by the government and yet you are the only operator of a lottery. So, another company could enter the market if they were to meet the conditions and requirements set forth by the government. Can you explain a little bit about what those conditions are? Would they be required, for instance, to turn over an equal percentage of revenues to the good causes? How does all that work and why is nobody else able to successfully compete with you?*

**AH:** First of all, even though there is no competition, there were several attempts by others to enter the market. All of them

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# The Key to “Instant” Success – Lottomatica Grows Instant Ticket Business by 3,500 Percent

Marco Sala, Managing Director of Italian Operations for Lottomatica SpA.

By Paul Jason, PGRI and Marco Sala, Lottomatica SpA



Marco Sala

The great nation that brought the world Leonardo DaVinci, Christopher Columbus, and Pavarotti – among countless other inventions and cultural achievements – is also setting a new pace for lottery performance. Well aware of global best practices around the world, Lottomatica is achieving astonishing results with instant ticket sales – an area that has not traditionally been as successful in Europe as in the U.S. (except for La Francaise des Jeux in France).



The story of Lottomatica’s success is even more remarkable when you consider that as recently as 2002 the operator of the Italian national lottery offered

just one game – Lotto – to its players in a country slightly larger than the state of Arizona in the United States. Diversification was the key growth driver for Lottomatica. Today, Lottomatica offers a fully diversified portfolio, including sports betting, gaming machines, Internet, and the fastest growing element of that portfolio: instant ticket games.

Instant tickets – known in Italy as “scratch and win” tickets – were first introduced by the Italian government in 1994 and yielded in 2003 (their last year of direct management) just over €220 million in sales. Lottomatica began operating the exclusive concession to sell instant tickets in June 2004. In just three short years, Lottomat-

ica transformed the Italian instant ticket business into a €7.9 billion business achieving, by far, the number one ranking in the world. The answer to how they achieved that success lies in a systematic approach that serves as a best practice model from which all lotteries can benefit.

“When we took over instant tickets in Italy there was not a fairly simple recipe for success. In fact, we were taking over a business that had been decreasing for the last seven years,” says Marco Sala, Managing Director, Italian Operations for Lottomatica. “Our approach is based on global best practices analyzed and adapted for the Italian market, and a thorough analysis of the key components of the instant business: price points, payouts, market research, POS display, advertising, promotion, and a significant expansion of the distribution network. Taken individually they may not seem important, but collectively they are powerful agents for growth.”

The thorough review, infused with knowledge gained from visits to four U.S. lotteries and two European counterparts to see how they operated their instant offering, set the stage for a comprehensive re-launch of Gratta e Vinci as a brand platform for their instant ticket offering.

How did Lottomatica achieve nearly a nearly 3,500 percent increase in sales in just three years?

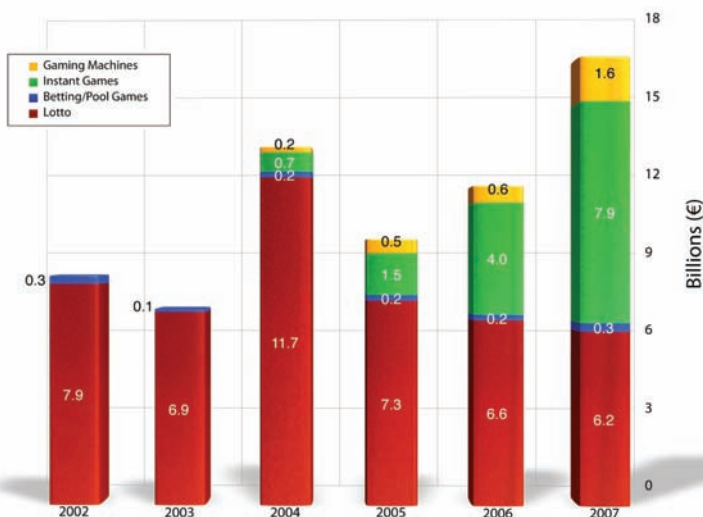
## A Global Viewpoint

The basis for success was predicated on a look far beyond Italy’s borders to find out what other lotteries were doing to be successful.

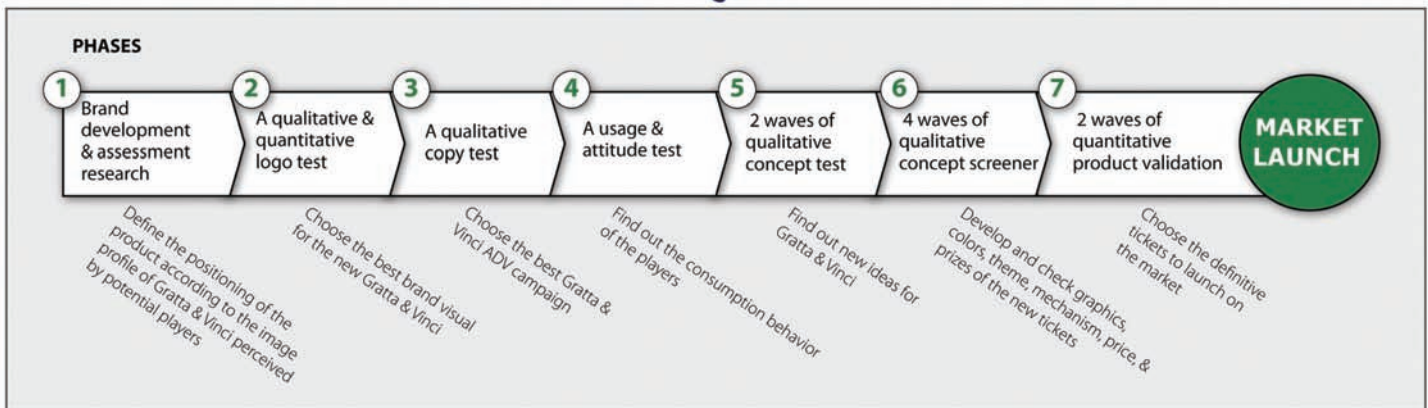
“I would say that we studied more in the past what was going on around the world and I think we were able to review all the experiences others had had and put them in the proper fashion for the Italia market,” Sala said. “Recently GTECH provided us with further opportunities to understand the best practices around the world because they have managed these programs for so many lotteries.”

The exploration of how numerous lotteries around the world operate helped Lottomatica determine how it would restructure itself in the re-launch of Gratta e Vinci. After significant global insight, Lottomatica ultimately settled on a specific model for the Italian market partly resembling that of their neighbor to the north.

“We saw that one thing American lotteries do is field lots of products, even up to 50 different products at a time. They renew products often, with very short life cycles and new product launches happening almost every week,” explained Andrea Faelli, Sales Director for Lottomatica. “In France, they had something like 12 or 15 products on the shelves and at least half of them



## MARKET RESEARCH MODEL FOR



were positioned there for years. Half the line delivered a predictable, safe return. Then they experimented with the other half. This is what we decided to do; go more with the French model rather than the American model. So now, for instance, we have about 16 products on the shelf, divided into five different categories. And two of the products that we launched in June of 2004 are actually still there.”

### Research Player Demands

It is a fairly simple premise, but one that is all too often ignored by lotteries around the world: if you want to know what players want, all you have to do is ask. Not Lottomatica, which engaged in full-scale qualitative and quantitative assessments of its player base to determine how best to meet the demands of Italy’s lottery players.

That information process did more than help to define a brand platform that would appeal to players; it also told them specific steps they could take to make the instant ticket offering more appealing to players.

“For example, we redesigned the tickets, making them more fun and exciting and at the same time, more relevant to our country,” Faelli said.

### Closely Analyze Price Points and Prize Payouts

When Lottomatica assumed responsibility to the Italian instant ticket lottery they began launching two price points – €1 and €2 tickets. By gradually introducing higher price points – first €3, then €5 and now the highly successful €10 tickets – the lottery was able to segment the market and position the different games to suit the needs of different player profiles.

The next item – re-working the existing prize payout structure from 45 percent to a proposed 70 percent – required more than solid market analytics. It required the full faith and credit of the lottery operator to make it happen.

“When we started out our average payout when we took over was less than 45 percent. It was very difficult, but we convinced the state Minister of Finance that if we increased the payout, that it would be good for the game, good for the players, and good for the profitability of the game to them. We took an educated risk based upon our expressed intention to fully

execute global Best Practices that the return to the state would increase. It did.”

### Advertise the Products and Spruce Up the POS

The lynchpin of the successful re-launch of Gratta e Vinci was the time and resources devoted to advertising and promoting the instant games, including paying particular attention to the point of sale (POS). After all, what good does it do to completely re-engineer the instant ticket offering if the players have no way of knowing how much better the games are?

“We made a significant above-the-line investment to build strong brand equity in Gratta e Vinci and to create high awareness among players of what we offered,” Sala said. “We launched a very focused and effective advertising campaign that achieved very desirable results and helped to increase awareness of the offering.”

But that was not all. Clean, exciting POS displays were created to make sure players could easily find the products – especially important because the lottery won concessions to expand into even more retail environments as part of a larger distribution expansion effort.

“Once the product is well-positioned in terms of price, place, product design, well communicated, then it’s just POS and customers... you find it you buy, and you keep on doing it and you tell your friends about it, even meeting them at the store at certain times of the day, you create a momentum or cycle that supports and reinforces itself, and generates even more interest in the games. That’s how we went from going from a few people to over 14 million people playing,” Faelli offered.

### Expand the POS Network

When Lottomatica began selling instant tickets it started with a network of 19,000 POS locations. Recognizing that enlarging the POS distribution network – both in terms of sheer numbers and in terms of location types (tobacconist, bar-tobacconist, bar, Interactive, etc.) – was an essential component of the growth plan, Lottomatica quickly expanded the distribution network to more than 45,000 POS.

...continued on page 26

# An Interview with Ernie Passailaigue

## Executive Director South Carolina Education Lottery



Ernie Passailaigue

And President of the North American Association of State and Provincial Lotteries (NASPL).

The *significant majority* of this interview is continued on-line.

Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.

**Mark Jason, Public Gaming (PG):**

*Let me start with a question regarding how you came to the Lottery. You left the Senate in 2001 to start the Lottery?*

**Ernie Passailaigue, Director South Carolina Education Lottery (EP):**

Right. I was the first employee.

**PG:** *I'm sure your experience as a business owner was invaluable at that point.*

**EP:** It's true. I had a variety of opportunities in my life that added to my resume and assisted me in terms of starting a business, and the challenge I would face here. I started my own business as a CPA back in the early 1970s. That started as a small business, and grew into a medium-sized, state-wide accounting firm, a partnership. In starting a business from scratch, even though it was small, I had to go through many of the same things I had to here on a much larger scale. It gave me an idea of some of the challenges I would face here when I started up. I also had an investment in a floundering minor league baseball team in Charleston, South Carolina, in the 1980s. That gave me an opportunity to more fully appreciate challenges in marketing, and especially cooperation with other teams. Intuitively, you would think there would be a lot of competition in that environment. But actually, we all learned very quickly that you were only as strong as your weakest link, and so there was a lot of collaboration among owners. We wanted to build a successful league, which meant that the various teams in the league were willing to share information about what worked and what didn't work. You quickly learned that it was very helpful to draw upon those experiences, receive that input. It's the same in this business here. Even though there is some border competition with North Carolina and Georgia, we have a lot more in common than we have differences. We have very good working relationships with our sister lotteries in those jurisdictions. I believe my experience with the minor league baseball team was really helpful in operating in an environment in which information was shared, in which everyone is very much attuned to assisting one another in making operations successful.

**PG:** *The spirit and environment of sharing and cooperation is an interesting thing about the industry. Another director that I interviewed came from the newspaper world, in which there was also much more cooperation than competition.*

**EP:** Absolutely. I really hurt when I hear and read about other directors facing challenges or issues that arise in this business. It really is a sense of loss and empathy that my colleagues are facing those issues. Of course, it could happen to any of us. The spirit of cooperation and camaraderie in this industry benefits all of us.

**PG:** *You started by yourself with the directive to establish a lottery. Did you have any experience with lottery prior to this?*

**EP:** I didn't have any experience in lottery. But, in the Senate, I ran the lottery bill in the South Carolina senate. It was the first bill on lottery that passed successfully, in 1999, I believe. So, I studied lotteries. On one occasion a number of my senate colleagues and I visited the Georgia Lottery, and of course Rebecca Paul Hargrove was very helpful in that regard. She opened her arms up to us, and made sure we understood some of the nuances of the business.

I always thought the key to success is to hire the best people. That is my management style. If you hire the superior people, you can train them into the operation. And that's what we did. The person who worked with our Commission before I was hired was a lady named Ernestine Middleton. She was in Human Resources in state government, on loan to our Commission. She was the first person I hired. What I realized before I took the job was that it was important to hire someone who was able to screen talent, hone in on the type of people to look for in starting a business.

**PG:** *So with all the different aspects you were confronted with, including vendor negotiations, finding retailers, etc. your first thought really was focused on the hiring process, finding the best people. Your first thought was to hire a professional in human resources.*

**EP:** Correct. Until you hire the second person, 100% of the duties and responsibilities are on your shoulders. All the challenges you mention, all that needed to be done, had to be done by people. So, we focused in on hiring the management team, the key people. Because we felt like we hired great people, we

set goals and objectives that they needed to meet. It was then up to them to hire their staffs, their key people to get the job done. What I was looking for were not just 'technicians', people skilled in each area. I think you can find really great people for individual tasks. I was looking for the types of people to whom you can give goals and objectives, and have confidence that the job will get done. The type of people I wouldn't have to micro-manage. It takes a special person to not only have the complete skill set, but also to be a leader in their field. We were screening people on both sides of this, to be technically qualified but also to be capable of leading.

It was a contentious situation here in South Carolina regarding the lottery. A lot of naysayers were claiming that it wouldn't work, that it was going to be corrupt. Every day in the newspaper was a headline providing a roadmap for failure. We put our blinders on, and assembled a team that we knew could get it done. When you start a business, you start from scratch. You have to get the infrastructure built up, all the way from desks, chairs, pencil and paper, a fax machine. I was hired in August of 2001. Our goal was to start by the end of 2001, or early 2002. So I needed people who were not 9 to 5 people, people willing to work on weekends, at night. People who were willing to

do whatever it took to get the job done. That was our slogan: Whatever It Takes. We had a core group of people with just that philosophy. It wasn't about a job description, a particular skill set. People pitched in to do whatever needed to be done. We had people from finance, legal, and marketing helping to establish our retail base, getting them through the examination process. We'd be working nights or weekends, and fortunately we had people who were willing to help.

In the private sector, you could pick up the phone and order what was needed. For a lot of these things, we had to go through the state procurement code, making sure that we abided by all the rules and regulations associated.

**PG:** *Let's jump back a bit in time. The gaming map in South Carolina around the year 2000 was an interesting one, as I understand it. Weren't there at that time a significant number of 'gray' slot machines in the state?*

**EP:** There was a Video poker industry that existed in South Carolina at the time from the late 1980s. This industry was, for all intents and purposes, unregulated and untaxed. I was part of **The significant majority of this interview is continued online. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.**

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# An Interview with John Musgrave

Director of West Virginia Lottery.

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John Musgrave

## Mr. Musgrave's Political Experience

**Mark Jason, PGRI (PG):** *Public Gaming: I'll start with political 'ebbs and flows'. You've been Lottery Director since 1997. You were appointed as interim Secretary of Revenue as well, I believe?*

**John Musgrave, Director of West Virginia Lottery (JM):** Yes, when Gov. Manchin was elected, I was serving as the Revenue Secretary – a Cabinet level position which is over the Lottery, Tax Department, Banking, Racing, Alcoholic Beverage Control, Insurance, Municipal Bonds, and the budget. I'd been asked to serve in that position as well as Lottery Director by former Governor Bob Wise when his Revenue Secretary resigned to work on a campaign. Governor Wise asked if I'd fill in as a Cabinet Secretary and keep my position as Lottery Director, as well. It was a monumental task. When Gov. Manchin was elected, he asked if I were interested in continuing as Secretary of Revenue. I agreed to stay until someone was named to replace me. I ended up serving a total of three years in the dual role. Finally, I was able to return to the position that I truly desired – Director of the Lottery.

**PG:** *I'm curious. Why? It would seem as though the Revenue Secretary position, with oversight of the Lottery as well as many other responsibilities, would be more prestigious. Why did you want to in effect take a step back?*

**JM:** One could certainly view it that way. Revenue Secretary is a more prestigious position, serving on the Governor's cabinet as head of the budget. But, directing the Lottery, it's just a special opportunity. It reminded me of running a private corporation. We develop and market products; we regulate an extensive business enterprise. It has a whole different complexion to it than does the position of Revenue Secretary. It was an honor to serve at the Cabinet level, but I wanted to be in a position of enterprise. I felt I could contribute more of my experience and expertise running the Lottery. I will always be grateful for the opportunity, given by both governors, to serve in that distinguished position on the Cabinet.

**PG:** *You wanted to be in government service. You obviously enjoy that aspect. But you also liked the action of being in business.*

**JM:** I like the challenge of running a business and my degree is in management/marketing. We are running a company of almost \$1.6 billion in sales and we have to deal with all aspects of business. Ac-

tually, we are an unappropriated agency and we do not receive any operational funds from the Legislature. We operate on a percentage of our sales. I enjoy the challenge of exceeding our goals, year after year. Of course the lottery in West Virginia is unique in that we not only operate and sell scratch-off tickets and online games such as Powerball; we operate and regular bars and taverns and the racetracks with video lottery and slots; and, now, table games and card games at two racetracks. Two of our racetrack casinos are each larger, by machine count, than any property in Las Vegas or Atlantic City.

**PG:** *Charles Town and Mountaineer?*

**JM:** Yes.

## Ten Years Ago...The Growth of the Racinos

**PG:** *When you took over, the four 'racinos' were just starting to get into play?*

**JM:** Yes, video lottery gaming was in its infancy at three of the four tracks. Charles Town had not yet come into play. One of the first jobs I had as Lottery Director was to get Charles Town's machines up and running on the lottery system, after their local referendum passed.

**PG:** *I'm sure the growth process was interesting and challenging from a managerial standpoint, but what about legislatively? Have you had to have a lot of discussions with the legislature as the video lottery machine population grew?*

**JM:** Yes, the way the Legislature structured the statute is that there are three factors we must look at prior to allowing additional machines: what is in the best interest of the public, what is in the best interest of the racetrack, and what is in the best interest of the state. The Lottery would hold a public hearing at each racetrack that requested additional machines to allow public input. We would gather all the data, such as employment opportunities, traffic flow, crime rates, and other concerns of local officials. Based on all these factors, we would make the determination. We feel that the market will determine how many machines each track can support. That's the approach we've taken, and we feel it's been successful. Today, through the Lottery's central video lottery monitoring system, we operate over 21,000 video and slot machines and generated sales of approximately \$1.562 billion in 2007.

**PG:** *So there never was a specific limitation on the number of machines at any specific location? **The significant majority of this interview is continued online. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.***



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# An Interview with Dale Penn,

Director of Oregon State Lottery

The *significant majority* of this interview is continued on-line. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.



Dale Penn

**Mark Jason of Public Gaming:** *Are there multiple statutes associated with Lottery, or is the Lottery statute under which you operate a single broad one? What gambling is authorized in Oregon?*

**Director Penn:** There isn't one single statute for the Lottery to operate under. We have a constitutional provision that authorizes the Lottery. Then we have a chapter of statutes, probably about forty or so, that detail operation of the Lottery. So there is constitutional authority for the implementation of the Lottery.

When you look at the statutes and the constitutional authority, gambling is illegal in Oregon. There are four exceptions to that general statement. Any gambling in Oregon is illegal except for the Oregon Lottery games, which are specifically exempted; Indian casinos, which have authority independent of the State of Oregon; charitable organizations, which are authorized to have bingo games, if they fit the IRS definition of a charitable organization and the fourth exemption is for local governments, which can authorize card games where there is no 'house' involved in the game. There are a few communities that have card ordinances, which allow a restaurant or a bar to have a group gather for a game. There are some regulations associated with this, of course. For instance, they must change who is the 'house' player, guarantee no underage involvement, things like that. But this is not a game that can be operated at all by the business establishment. So, we have a small number of bingo parlors throughout the state, and a few communities that allow the card games by ordinance. If you are not in one of those four categories, and you are gambling in Oregon, it's illegal.

The Lottery has constitutional authority for any game that the Lottery Commission authorizes, except pari-mutuel racing, social games, and bingo, which is reserved for charitable organizations. Also in the Constitution it states that the legislature does not have authority to authorize a casino, and shall prohibit casinos. The Indian casinos are regulated by the federal government, outside of the state's control. So, it would be illegal to have a private casino in Oregon.

We do have a group right now that has been working for awhile on a ballot measure for a private casino. This Constitutional amendment initiative is with the Oregon Supreme Court to get a ballot ti-

tle certified for that the November ballot. If approved next November as a constitutional amendment, it would authorize one private casino, at a specific location in Oregon. Obviously, the people who own and have rights to that location are the ones trying to promote this. They've been working at this process for two or three years.

In addition, there are two new Indian casinos that are still in process back in Washington D.C. One of them is just across the river from Portland, in Washington State.

To sum up, the 'casino' prohibition that is in the Constitution simply stipulates that we aren't going to have private or state owned casinos in Oregon.

**Public Gaming:** *My reading of this is that the statutes under which the Lottery operates are very broadly defined. There seem to be very few specific restrictions or limitations to gaming that can be offered through the authority of the Commission or the Governor's office.*

Director Penn: Other than bingo and charitable gaming, you're right. All the legal and constitutional authority is with the Lottery Commission. Now, there are other considerations. The Commission does not need legislative authority to authorize a game. That doesn't mean that the legislature may not pass a statute, and the Commission take that into account and adopt a game. There are many interested parties, including the Legislature, but the authority to initiate a game resides with the Commission. Each Commissioner serves at the pleasure of the Governor, and must be confirmed by the Senate. So there are a lot of checks and balances here.

**Public Gaming:** *So, for instance, when the Commissioner and the Governor decided to authorize investigation of line games, it did not require a vote of the populace or any changing or passing of any statute. The authority already existed within the Commission and the Governor to authorize that addition to the Lottery's product mix.*

Director Penn: Absolutely. And that's exactly what happened. The Governor requested that the Commission authorize line games. He made the request because of a state budget gap, and the Commission examined it and did approve it.

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*We just joined the Gaming Standards Association. We think that will give us a better view of where casinos and other video manufacturers and regulators are heading.*

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**Public Gaming:** *How is the term 'casino' defined in the prohibition?*

**Director Penn:** Well, it isn't. There is one case, an Oregon Supreme Court case, that talks about a 'casino'. Basically, when Video Poker was authorized back in the 1990s, there was a lawsuit to prohibit the use of VLTs, the machines themselves, because they are 'casino machines' and would be creating a state owned 'casino'. The Oregon Supreme Court looked at the constitutional measure, and the casino prohibition. There is an interesting little statement in the Constitution, before you get to the casino prohibition, that says that the Lottery Commission can authorize games, and if it has video games, it can't have machines that use coins. So, Lottery VLTs do not use coins, but we use dollar bills in various denominations. The VLTs generate redeemable cash slips for the winnings. So, the Supreme Court looked at that the whole Constitutional provision to determine what the casino prohibition means. They ruled, first, that a place that is 100% gambling is a casino. But where do you draw the line with facilities that have some, but not 100%, gambling? The Supreme Court didn't really try to draw the line, other than to use a phrase that 'a location whose dominant use and dominant purpose is gambling is a casino'. Then the Court looked at the Lottery framework, the regulatory system of the Lottery, the

fact that at that time locations were limited to five VLTs and ruled that the machine itself isn't what makes a casino. When looking in the Constitution, clearly the voters intended that these types of machines could be used, in the same document in which they said they didn't want casinos in Oregon. So, just having the VLT by itself doesn't mean it's a casino. The Oregon Supreme Court ruled that Video Lottery in Oregon is not unconstitutional. There could be location-by-location challenges, but that would have to include other factors and other considerations, but the organizational structure of the Lottery did not violate the casino prohibition rule. Since then, the Lottery has developed rules to try to bring a practical application to the Court's decision. These rules have changed over the years. At one time, we used the term 'dominant use, dominant purpose', but it's not defined. It was very complicated and misunderstood; both by retailers and by regulatory staff, and people struggled with it. At one time there were a percentage of sales parameter used. As long as one didn't have more than 67% of their total revenue come from gambling, it was allowed. It was controversial, to say the least. Just last year, we went through a rule-making process, and amended that

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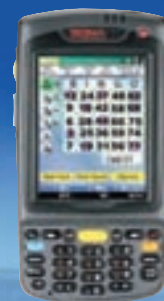
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# Oregon Lottery Round Table Discussion

An Oregon Lottery round table discussion with Dale Penn, Director; Carole Hardy, Assistant Director, Marketing; Tim Eaton, Assistant Director, Retail Operations; Chuck Baumann, Public Affairs; and Public Gamings Mark Jason, Editor. The *significant majority* of this interview is continued on-line. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.

## "Line Games" - Video Lottery

**Dale Penn, Director (Penn):** I think what was unique when we started our business was that we brought in multiple vendors to provide machines, and the fact that we own them all and we service them all. So that was unique and it's a model that has served Oregon well.

**Mark Jason, Public Gaming (PG):** *Is that a statutory thing that you own them, or was it your decision?*

**Carole Hardy, Assistant Director, Marketing (Hardy):** It's a business choice. In fact, when we first started, we did lease a lot of our machines.

**PG:** *A benefit to that would seem to be that if there was a shorter term that you were committed to, you'd have more flexibility to rotate in the more productive ones and rotate out the less productive ones on a more dynamic basis.*

**Hardy:** It's something we've discussed. There are different business models to look at, and I think as technology starts evolving more quickly, that becomes more relevant to discuss.

**Penn:** That's really been something that just occurred in the last couple of years for Oregon. Up until that time, we were poker only, and the issue of line games was really politically set aside. There are not as many possibilities with changing a poker game. But now that we've gone into line games, things have changed. I think Tim was saying at this morning's Commission meeting, our players have gone from being 100% poker three years ago to about 71% line game sales today. That has been a gradual change in the two and a half years that we've had line games. And clearly, with line games the need to make changes and the capability to make changes is much more important. That's why we are looking at market evaluation. **The significant majority of this interview is continued online. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.**



Tim Eaton

## TIM EATON

**Assistant Director, Retail Operations of the Oregon State Lottery.** The *significant majority* of this interview is continued on-line. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.

**Mark Jason of PGRI (PG):** *Along with all other aspects of distribution and sales support, you also manage the field service technicians for the line games, don't you?*

**Tim Eaton (TE):** We take a lot of pride in the sales and customer service support that we provide directly to the retail businesses that market our products. We also feel that the services we provide benefit the relationships with, and the viability of the retailers that we partner with. Our field staff consists of 46 sales reps and 64 service technicians. With the state divided into six geographic areas, this entire field staff report under one management structure. There's a field manager for each of those six areas. Each field manager has a team of roughly seven or eight sales reps and eight to ten service technicians who report to them. We also have a Video Support department that coordinates and manages the movement of VLTs to and from retail establishments, and provides technical support for our field technicians. In addition, we have a retailer call center with staff that respond to approximately 270,000 retailer problem calls a year, and with a great deal of efficiency they resolve 80% of the issues over the phone, and dispatch the remainder for field resolution. Beyond this, we have an operation support group that plan, oversee, and execute, our Video Lottery projects, such as software upgrades, etc.. Our staff does a great job and we keep them very busy.

*Potentially, a server-based system could offer the benefit of speeding the delivery time of games from concept to market, the potential to access a greater variety of games, and the flexibility to try new concepts in our market with much lower costs associated with implementation.*

**PG:** *As far as I know, both the ownership of the equipment in-house are unique to your Lottery. In effect, you have total control over the system and situation in a way that is quite impressive. That's what I want to explore with you. The significant majority of this interview is continued online. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.*



Carole Hardy

**CAROLE HARDY**

**Assistant Director, Marketing of the Oregon State Lottery.**

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**Mark Jason of PGRI (PG):** *There are four aspects of marketing at the Oregon Lottery: Video Lottery, On-Line Games, Scratch Tickets, and the brand in general.*

*Which of these takes up the most time?*

**Carole Hardy (CH):** It depends on what's happening at any point in time. Right now, we are bringing in a new traditional gaming system, so that's been consuming a lot of our time throughout the agency over the past year and will continue into next year. Prior to that we introduced line games into our Video Lottery mix which was the agency's main focus for the previous two years.

**PG:** *Does that new system apply to both the on-line and instant tickets?*

**CH:** Yes.

**PG:** *What benefits do you hope will be derived from that changeover?*

**CH:** We are getting the latest technology that's offered on the traditional side of the gaming world. So it's a more flexible system, offers better accounting and inventory management on the scratch tickets side, opens the door to potential new on-line gaming opportunities, particularly those that are offered on monitors. Plus we are anticipating that it will be much more intuitive for the retailer from a terminal operation perspective.

**PG:** *Did you purchase the new system outright?*

**CH:** We compensate GTECH as a percentage of sales. We do not operate the traditional gaming system. GTECH operates it.

**PG:** *In the discussion you had with Paul, you used the phrase "challenging the social."*

**CH:** At the start, you talked about four marketing challenges. I would say there is one that you didn't touch on. That would be looking for new markets. What I was referring to is research, which is one of the things I'm responsible for. We are always looking for opportunity. What I was speaking to specifically is that if you look at a younger market, the types of entertainment experiences that they tell us they are looking for lean towards social types of interactions. They like to be with their friends, and do things with their friends including playing games. When we did a product mapping

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Chuck Bauman

**CHUCK BAUMAN**

**Manager Public Affairs of the Oregon State Lottery.**

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**Mark Jason of PGRI (PG):** *The Lottery started in 1984, presumably with traditional scratch-off and on-line games. At what point did the Lottery expand its offering to*

*include other types of games?*

**Chuck Baumann (CB):** The Lottery was voted on in 1984, but the actual starting date was in 1985 and we started with an instant game. Almost immediately, we offered Megabucks, which is our own in-state jackpot game, in 1986. Daily Four, which was a daily four-number game, was introduced in 1987. In 1988, we were one of the original Loto-America states. Sports Action was added in 1989. KENO debuted in 1991. Video Poker came along in 1992. Loto-America becomes Powerball in 1993. Our bingo and crossword scratch games had kind of a family of their own. We started bingo in 1994, crossword in 1998.

Win for Life, which has drawings three days a week, was launched in 2001. In 2003, we added Scoreboard, which was based on the outcome of NFL games, to compliment Sports Action. And most recently, Video Lottery 'line games' were

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*The legislature recognized the fact that there were roughly 10,000 "gray machines" statewide. Most of them were operating illegally,...*

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added in May of 2005.

**PG:** *You said you added Video Poker in 1992. And that's why you use the term 'line games' rather than Video Lottery, because for you Video games for over a decade had designated the Video Poker.*

**CB:** When we introduced line games in 2005, we made a conscious decision to reference 'video Lottery' as the product with poker and line games being games within that product.

**PG:** *What construct did you begin with? I.e. Number of machines, where located (bars and taverns?), number of machines allowed per location and total? Did 'gray' machines exist in the state at the time?*

**CB:** First, in order to be a Video Lottery retailer, the business must have an Oregon Liquor Control Commission License. It has

**The significant majority of this interview is continued online. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.**

## 2008 Major Peter J. O'Connell Lottery Industry Lifetime Achievement Award Recipient: **Connie Lavery O'Connor**



Connie Lavery O'Connor

It is with great pleasure that PGRI announces that Connie Lavery O'Connor is being honored with the 2008 Major Peter J. O'Connell Lottery Industry Lifetime Achievement Award. Connie Lavery O'Connor is one of the most experienced, respected, and distinguished lottery executives in the world. As Senior Vice President and Chief Marketing Officer of GTECH Corporation, Connie helps to drive the overall strategic direction of the Company while providing strong leadership,

singular customer focus, and a heightened level of market responsiveness to create new products in response to player and retailer needs. She is responsible for the development and enhancement of marketing strategies and closely collaborates with the technology and operations groups that are critical to better serve GTECH customers and achieve more market-responsive services and products. Connie also identifies market trends and long-range market opportunities for product and content development, sales, and potential acquisitions.

Prior to joining GTECH in April 2006, Connie served as Chief Operating Officer of the Georgia Lottery Corporation. Before that, she spent almost 30 years with the New York Lottery; working the last 14 years as Director of Marketing and Sales. Connie holds a Bachelor of Arts degree in English and Psychology from Empire State College in Albany, New York, and a Master of Arts degree in English and Psychology from State University of New York at Albany.

Cornelia Holland, known to the lottery industry as Connie Lavery, was born one of seven children in Kanturk, County Cork, Ireland. At age 17, upon graduating from high school, she came to America for her higher education and to begin what she didn't realize then was a lifelong career in the lottery industry. Landing in Albany, Connie worked "through the ranks" in every department in the New York Lottery – including finance, operations, drawings, and ultimately, sales and marketing. At the same time she combined marriage (to Jim Lavery), the birth and rearing of her three beloved children – Conor, Tracy, and Christian, and the pursuit of her education. She completed her undergraduate work at Empire State College and earned her masters degree from the State University of New York at Albany.

Known for her energetic spirit and get-it-done attitude, Connie and the New York team took the New York Lottery to new heights, coordinating the collaborative effort among the sales and promotions staff at the New York Lottery and the Lottery's advertising agency, with internal operations and controls. As Marketing and Sales Director and working with her colleagues in operations

and finance, Connie evolved the focus of the Lottery beyond Operational and Security to Marketing and Sales, while at the same time not sacrificing or compromising the security and integrity of the systems and games. She developed programs to allow the sales staff to go out and actually sell the Lottery, instead of just enforcing retailer rules and regulations. In order to give the marketing representatives in the field the tools to sell to lottery retailers, the New York Lottery provided them with laptops. The customized sales force automation program for those laptops required a cross-functional team to work together with the vendor. That was accomplished successfully because of Connie's ability to get people to work together as a team across roles and disciplines for a common goal. Connie is now doing the same at GTECH.

In New York, Connie and her team working in collaboration with operations and GTECH, changed the way Instant Games were handled by retailers by developing alternative ways for book settlement, thereby allowing the retailers to carry and sell more tickets. She implemented the integration of Instant Game settlements with the online system. In an effort to make the look of instant games uniquely New York, she brought the design of the games in house. Over 10 years' time, annual sales of the instant product in New York grew from \$250 million to over \$3 billion. Because of the importance of New York Lottery players seeing the live drawings, Connie and the advertising agency developed the statewide broadcast of Lottery drawings. As a result, the drawings are seen by Lottery players in every major and minor market in the state.

Several benchmark marketing campaigns were launched during Connie's tenure, notably "All You Need is a Dollar and a Dream," "Hey, You Never Know," and "If I Had a Million Dollars," this last one was a total New York statewide community effort following the tragic attacks of 9/11.

After 30 years at the New York Lottery, the death of her husband, Jim, and the passage of her last child into adulthood, Connie relocated to Atlanta, Georgia, to serve as the Chief Operating Officer of the Georgia Lottery Corporation. During her tenure there, she plunged right in to help set the course for the future of this highly successful Lottery. Geographical distance from her three children in the Northeast and an opportunity with GTECH Corporation, led her back North. She has been GTECH's Chief Marketing Officer since April 2006. It is exciting to see that, with GTECH/Lottomatica, Connie Lavery O'Connor now brings to a world stage the positive energy, integrity and leadership skills that will help our industry grow and prosper. And along with these responsibilities, Connie continues to contribute her time and energy to working with the next generation of lottery leaders.

On a final personal note, Connie remarried in March/April 2006, and lives with husband Patrick O'Connor in Rhode Island. They are the proud parents of five adult children, four sons and one daughter. ♦

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# An Interview with Elizabeth White

Deputy Director, Marketing, West Virginia Lottery.

The *significant majority* of this interview is continued on-line. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.



Elizabeth White

## Today's gaming Map in West Virginia

**Mark Jason of Public Gaming (PG):** So the map on gaming in West Virginia looks like this: the Lottery offers the traditional games, the instants and the on-lines, you have the four racetracks, all four of which has Video Lottery, two of which now have table games, a third authorized but not yet running, and then you have 'pouring establishments' with Video Lottery. How many establishments are out there offering Video Lottery under the Limited Video Lottery legislation?

**Elizabeth White (LW):** Keep in mind that we only have 1.8 million people, and the state has a unique topography. We have areas that are not highly populated. As of the end of December, we had 1,625 traditional retailers and 1,651 Limited Video Lottery retailers – 313 of which also sell the traditional product.

**(PG):** Are all four of the racetracks destination resorts?

**(LW):** They definitely are tourist destinations. The two tracks in the northern panhandle, Wheeling and Mountaineer, have large, nice hotels. Charles Town is in the planning process for building a hotel; that area of the state was already a tourist destination, with offerings such as Harper's Ferry, spas, and a lot of bed and breakfast inns there. Many people from the Baltimore/D.C. metropolitan population take weekend vacations to that area. Charles Town didn't need a hotel, but they probably do now, because they are attracting so many players. Tri-State does not have a hotel, but they are in the process of building one. Of course, to keep operating a business, to maintain and increase revenue, an entertainment venue has to constantly upgrade its facilities.

## Video Lottery Marketing

**(PG):** You indicated that the four racetracks are responsible for their own marketing. Do you get involved in the marketing side of Video Lottery?

**(LW):** The law states that the Lottery Director or his designee must approve all advertising. The tracks will simply e-mail their newsletters, VIP club publications, billboard renditions and other ads to us for review. They choose many different styles of marketing, depending on their target audiences. We review everything to make sure it meets our standards. We do require that the Lottery logo be visible on all racetracks' advertising to depict that they are an official, licensed, state-regulated gaming facility.

**(PG):** What other types of things do you look for?

**(LW):** Fortunately, the tracks have hired highly skilled marketing professionals who know the rules. We look at their ads for misrepresentations or any potentially offensive graphics. But honestly, we've never had any problems.

**(PG):** I assume the same advertising review applies to the table games?

**(LW):** Yes, and just as with the Video Lottery side of the tracks, we've had no problems.

**(PG):** Now with the Limited Video Lottery, I believe their marketing has been severely curtailed, if not eliminated?

**(LW):** Yes. They are prohibited from advertising the gaming. Our job is to regulate and restrict. All these 'gray' machines were out there, and children were playing them, and being exposed to gambling. If you read anything about problem gaming, early exposure can lead to future problems. We do not want underage players. Period. So, basically, we didn't even want visibility for underage players. What we started seeing was that retailers were using their name, and their signage, as a form of advertising. The populace was very upset. We received constant complaints about this. As a result, an Executive Order prohibited Limited Video Lottery licensees from using gaming themes in their business names.

## Traditional games

**(PG):** Do you have ITVM's here?

**(LW):** We currently have 110 older machines. We do hope to have the newer player-activated terminals in the future - the more interesting ITVMs. Placement must be within visibility of a clerk. Vendors have been wonderful in developing age-restrictive processes such as drivers-license scanning. Also, connectivity to a power source by the retailer is important. If they see someone underage appear to access a ticket, they may simply disconnect it and ask the player for identification. In West Virginia, we have a color-coded drivers license system, for alcohol consumption. The system does a wonderful job in preventing minors from purchasing alcohol and tobacco products, and lottery products, as well. The age limit to purchase our traditional games is eighteen.

**(PG):** How have sales for your traditional games, the instant tickets and on-line games, done over the last couple of years?

**The significant majority of this interview is continued online. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.**

# Internet Gaming: Is Payment Blocking an Adequate Solution?

Comments about the USA, France, and Norway.

**The significant majority of this interview is continued on-line. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.**  
By Sharie A. Brown, Robert A. Burka and Philippe Vlaemminck

In a recent discussion with a European based gaming operator, the question was raised whether it would be possible to block the transfer of money related to Internet gambling services. The operator quoted his Minister who had declared that “if the USA can do it, why would we not be able to do the same”. This statement requires indeed an analysis of the issue from different angles. Does it work in the USA and/or can it be working? In Europe the question is even more complex, as internal market rules do also need to be taken into consideration. Rules regarding so-called “information society services” are subject to a notification procedure (managed by the European Commission) prior to their entry into force. If the assessment made by the EU Commission leads to the conclusion that the proposed legislation affects the EU internal market rules in an unacceptable way, the concerned EU Member State is not allowed to put the system into place without the necessary adjustments. In the absence of adjustments, the concerned EU Member State can face an infringement case.

## But, let's start with the USA.

In October 2006, just before mid-term elections in the United States, President George W. Bush signed the Unlawful Internet Gambling Enforcement Act of 2006, 31 U.S.C. §§5361 et seq. That statute did not make Internet gaming illegal, as that was already the position of the United States Department of Justice for many years. Rather, the statute sought to choke off the transmission of

funds between Americans and Internet gaming sites, regardless of where the gaming sites are located. The statute attempts to prohibit acceptance of credit cards, funds, bank instruments, or proceeds of any other form of financial transaction in connection with unlawful Internet gaming.

As one of the statute's principal sponsors, former Rep. James Leach (R-IA), stated when the statute was enacted, “Basically, we are shutting down the payment system for Internet gaming.” By making it “illegal to use a financial instrument to settle an Internet wager,” Congress is “putting responsibility on the financial community” to choke off the funds that drive Internet gaming.

The thrust of the UIGEA statute is that internet gaming, considered illegal in the United States even though many Americans participate, cannot be directly stopped by American law enforcement authorities. That is because internet gaming hardware is located offshore and in locations where it is legal. Thus, the belief that if internet gaming funds transfers can be stopped, so will the underlying activity. The statute should have no effect on existing lotteries in the United States since, in general, the interstate sale of lottery tickets is illegal – and federal law enforcement authorities would have little difficulty locating and prosecuting operators attempting to cover too broad a market.

**The significant majority of this interview is continued online. Go to [www.publicgaming.com](http://www.publicgaming.com) to see this interview in its entirety.**



Sharie Brown



Robert Burka



Philippe Vlaemminck

**Sharie A. Brown** is a Partner and Chair of the White Collar Defense & Corporate Compliance Practice at Foley & Lardner LLP. Ms. Brown represents multinationals and conducts investigations and merger due diligence worldwide in the areas of the Foreign Corrupt Practices Act, OFAC compliance and export controls, corporate ethics and compliance, World Bank procurement frauds, Economic Espionage Act, and USA Patriot Act anti-money laundering. She previously served as Compliance and Ethics Officer with Mobil Oil Corporation, and was a federal prosecutor in the Eastern District of Pennsylvania.

**Robert A. Burka**, Partner, Foley & Lardner LLP; J.D. Harvard University, M.Sc[Econ.] London School of Economics and Political Science, and A.B. Dartmouth College. Mr. Burka counsels corporate clients on federal regulatory and antitrust issues, and he previously served as an Acting Assistant Director and Deputy Assistant Director of the U.S. Federal Trade Commission's Bureau of Competition.

**Philippe Vlaemminck** is the managing partner of Vlaemminck & Partners, a Belgian law firm specializing in EU & WTO law and for more than 20 years substantially involved in defending the cause of lotteries at all levels (Internet, privatizations, regulatory approaches...). His email is [Ph.Vlaemminck@Vlaemminck.com](mailto:Ph.Vlaemminck@Vlaemminck.com)

# Does Lottery Gaming have a Server-Based Future?

By Michael Koch, CEO of ACE Interactive



Michael Koch

The global gaming marketplace is eagerly awaiting a shiny new model – a video lottery terminal-powered concept known as server-based gaming (or SBG).

Two key factors are apparent in the recent and predictable growth of video lottery terminals (VLTs) in Europe, Canada and the US – a desire to boost government revenues and the growing acceptance of responsible gaming programs. SBG provides greater potential for enhanced revenues (as players enjoy increased flexibility in game content)

and more informed control of the gaming experience (benefiting player and operator alike).

SBG is certainly creating a buzz, but the industry is beset with confusing information and wrong assumptions. Our aim in this column will be to explain and demystify the subject, touching on as many topics as possible.

Our first article introduces SBG and explores its potential impact on the world of video gaming. Let's begin by looking at VLTs.

In its most common form, a VLT is an increasingly popular breed of gaming machine that allows players to bet on the outcome of a video game – often casino-style games like spinning-reel slots, blackjack or poker. However, one size doesn't fit all...

In the US, for example, VLTs in Rhode Island must be video games that can't use mechanical reels or dispense coins/tokens; in Delaware, they can be video or mechanical-based machines; whereas the New York Lottery video gaming machines (VGMs) can't contain a random number generator (RNG) but merely display the outcome of an electronic instant lottery game.

Typically, VLTs are located in venues where traditional casino-type gaming is not authorized or not the primary attraction, such as pari-mutuel racetracks ('Racinos') or age-controlled environments, like bars and restaurants. VLTs may be stand-alone units, but more commonly – and this is where the 'server' fits in – they interface with a central monitoring system computer.

These central computers can offer downloadable server (DLS) gaming, where the game outcome is determined in the individual gaming machine (the VLT), or 'true' SBG, in which the game outcome is determined centrally in the server (the New York Lottery VGMs are a form of this.)

SBG technology provides a growing alternative to stand-alone machines. So, what's the difference between these systems?

With stand-alone VLTs (the more traditional type of individual machine gaming), the game content resides in a computer chip (or 'EPROM') in each terminal. The VLT also contains the RNG, which calculates the game outcome. If an operator decides to offer a different game on the machine, a technician must physically swap the game chip for another.

In DLS gaming, the RNG remains in the VLT but the software for a specific game is downloaded to the machine from a central server. If the player wants to play a different game, the new game has to be downloaded to the terminal by the operator before it's available to the player. In this way, venue operators retain control over which games are played at which machines and at what times.

With SBG, by comparison, the RNG and all game software are located not within the gaming machine but at a central server site. The player can instantly choose from a predetermined menu of games; no download is necessary. SBG allows the operator to control, remotely, everything displayed on a game terminal – games and outcomes and advertising messages, customer service functions, promotions and so on.

DLS and SBG can capture more information, via the server, about a player's gaming session. Presented in an easy-to-interpret way, the information helps players make informed decisions: to continue play, take a break, self-exclude or access screen-based counseling information.

Removing an operator's dependence on the traditional styles of venue-based hardware and chip-based software is key to the future of VLT gaming. It's a revolutionary development that, in my opinion, provides great potential for all three major stakeholders in the video lottery business:

**Lottery** – Increased access to games, plus better and more flexible gaming options, means higher yields from terminals and venues. Add to this a decrease in operating costs (such as reduced staffing requirements), and the result is improved profits and more net proceeds to good causes.

**Player** – Easy access to popular games within an informed and responsible gaming framework creates a flexible and enhanced gaming experience.

**Regulator** – Improved regulatory control and oversight features create new opportunities for responsible gaming and increased player protection.

...continued on page 25

*Michael Koch* was appointed CEO of ACE Interactive in 2006 to lead Aristocrat Technologies entry into the Server Based Gaming arena. His background in engineering and business drives him to look for the latest trends and stimulates his desire to explain these in simple terms to an executive audience. Michael has over 14 years experience in the gaming industry initially with the lottery division of Wincor Nixdorf and then with GTECH.



So, will SBG sweep across the gaming world? Its appeal will certainly extend to a wider range of player types. SBG is more user-friendly for current gaming customers. It's more attractive, too, for a new generation who're more at home with the action and graphics of PlayStations, Xboxes and Wiis than with stepper-reel slot machines.

I'd say that DLS and SBG technologies, once market tested in mid-2008, will be ready to enter the mainstream gaming arena by 2009. Most developers predict big changes over the next three to five years, but the acceptance of DLS or SBG is as much a decision for the operators. The marketplace will drive the technology – if DLS and SBG products are embraced by the operators, the developers will surely follow.

In future articles, we hope to create healthy debates about developments in the video lottery sector, including such key issues as responsible gaming, regulatory frameworks, business models and the potential for SBG. I hope you'll join us every month. ♦

### *An Interview with Ales Husák* ...continued from page 9

went bankrupt because they were missing the brand. We have a brand. We have loyal customers, that means loyal people who are betting and we are a nationwide institution because we have been here for 50 years already. And for the 50 years we are working consistently, paying out premiums and the wins. We have paid our dues. We have never been default in paying and the brand awareness is so high that 98% of the population knows the brand Sazka and Lotto. So anybody who would like to penetrate the market, he would have to develop the same. So I had thought 10 years ago that what is important for us is to have terminals and to have penetration of terminals nationwide. At that time it was important; now the brand is more important. This is the first reason why we are successful. Of course, market penetration via terminals is still important too. A second obstacle is that there are conditions given by legislation. They are relatively strict. You need to have some registered capital. You have to pay some performance bond to the government and meet a number of further requirements and conditions stipulated by the law and this is judged by the Minister of Finance. And according to the law, the Minister of Finance is collecting the good cause money which is calculated by a relatively simple formula, which applies to the whole gaming market in this country. So we take revenues, subtract payout wins and we pay 20% from the difference, regardless of other costs. There is a table in which it is calculated. The same structure applies to other games. For example, in sporting games there are about five entities on the market, and we are in fourth position. That means in some other segments of the market, the competition may be stronger. Slot machines are the strongest and most competitive segment. But the trick is

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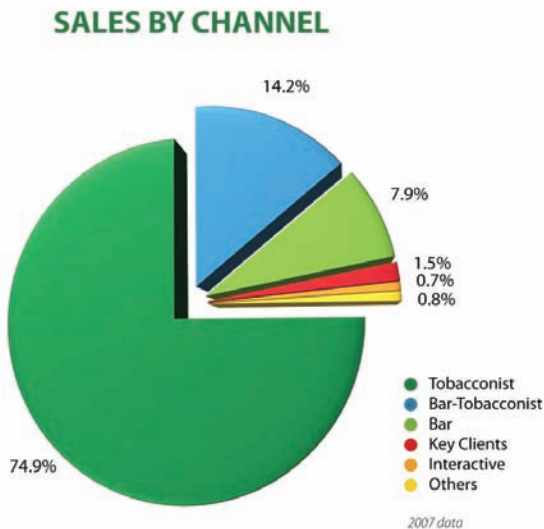
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The Key to “Instant” Success – Marco Sala ...continued from page 11



“We recognized very quickly, and devoted a great deal of energy to it, that enlarging our distribution footprint was extremely important if we were to realize our goals for increasing sales,” Sala said.

Lottomatica believed so strongly in the importance of the POS environment that it added an external agency on a temporary basis with more than 100 people who visited more than 30,000 POS locations to check on the selling environment and teach retailers how to improve the visibility of the product.

### Appeal to National Interest in Sport

In addition, the lottery enhanced distribution by adding lottery-sanction sports wagering in numerous sports betting parlors, as well as other locations throughout the retail network, appealing to the significant national interest in sports betting.

How successful has that venture been? In just four short months – and competing against several established sports wagering opera-

tions in the country – Lottomatica is the second largest operator of sports wagering. In that same time period, the lottery achieved 12 percent market share from more than 1,000 sports wagering POS locations. Over time, and with exploitation of the POS footprint for sports betting, the expectation is that business will grow significantly in the coming years.

Importantly, unlike instants which succeed on the basis of numerous non-competitive factors (play style, price point, prize payout, and POS visibility), sports betting is a more competitive environment, with entrenched competitors and variable offers (“best odds”) in an inherently more limited distribution footprint. Player research was the key to the successful sports wagering launch by Lottomatica, permitting the lottery to instantly offer a highly competitive product with the trust and comfort that is associated with a government-regulated entity.

### Harness the Power of the Internet

More distribution expansion came in perhaps the most powerful form possible – the seemingly endless power of the Internet. Again, by specifically tailoring the games offered on the Internet channel and by effectively promoting the easy access to the games, the Internet channel was an instant success.

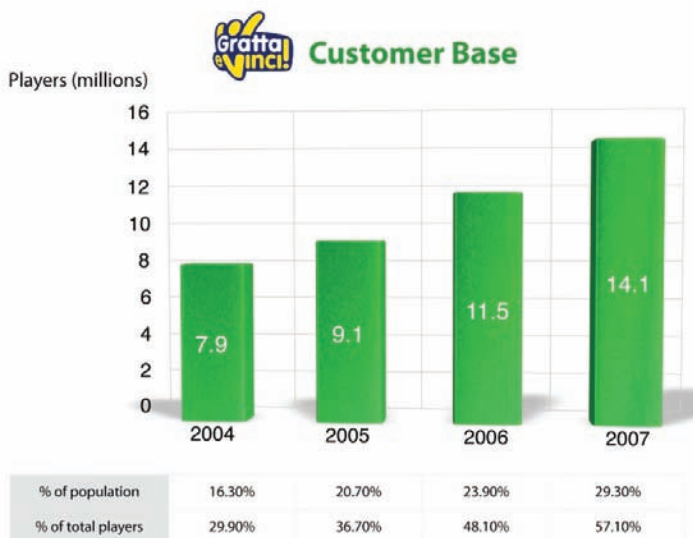
“Our Internet channel launch was quite interesting because in a year and a half we achieved similar results to the very successful UK and French operations in terms of instant ticket product sold through the Internet. In a very short period of time, we reached a strong level of distribution through this channel,” Sala offered.

The Lottomatica Internet offering is much more expansive than the Gratta e Vinci instants line; it includes also sports betting, and offers the potential for skill-based offerings in the future.

“It is perhaps the most exciting new frontier for us and we are very enthusiastic about what it may yield in the future,” Sala said of the burgeoning Internet channel.

The success of Lottomatica is more than the perfect marriage of good strategy and even better execution. It is a good illustration of the impressive results that are possible when the world’s largest lottery operator and the world’s largest lottery platform provider work closely together to develop and execute end to end solutions.

“This was one of the reasons for the acquisition of GTECH; it offers a truly unique international platform, and the fact is, their platform is a fantastic platform,” Sala said. “We have already benefited by this combination in Italy; GTECH has benefited as well, in terms of our competencies and are now able to provide their customers with our hands on experience. That, I think, is one of the interesting experiences worldwide and something other lotteries can learn from.” ♦



## An Interview with Ales Husák ...continued from page 25

that anybody who has to pay a 20% levy is not able to compete, because there is no possibility to return invested capital, pay out wins, pay the levy, and still have adequate cash-flow left to cover all your costs.

**PG:** *It would seem to me that someone with adequate capital would be able to duplicate almost everything that you do except for brand.*

**AH:** We have made a calculation how much the competition would have to invest into such a venture. All our competitors invested 20 times less than they had to and still it was an enormous amount of money. When it comes to the basic structure of the lottery business, they would have to reach jackpots close to what we generate, and they cannot reach those.

**PG:** *So this is the most formidable asset that you own, the brand itself, the value of the brand?*

**AH:** This is why I mentioned it in the first place. I don't have to explain to anybody what is Sazka, or what is Lotto. All I need is to tell them what is the amount of the jackpot, and that when they are at the POS, I am also offering other programs. The second most successful lottery program is daily keno, and it is known by 86% of the population.

**PG:** *The development of this perception on the part of everybody of who you are and what you are and why they can trust you happened over a long period of time. What things are you doing right now on an ongoing basis to reinforce that brand value and perception so that five years from now you have the same asset value, or hopefully improved even more the asset value of the brand?*

**AH:** Just like all the well known brands, like Coca Cola for instance, we are just reminding and keeping it fresh in the public's mind that there is this brand, that it exists, and this message is repeated on a daily basis. And the advantage that we have is that nobody is interfering with how we manage our costs and our advertising budgets. One of my American friends, a lottery director, was criticized by his governor for placing ads in the media. If he did not remind people, within five years nobody would know the brand, the brand awareness will drop. We are in the same market as books, cinemas, theaters, or music... we are in the same segment, leisure and recreation, and there is lots of competition for the consumers' attention in this segment.

**PG:** *Could you talk a little bit more about the relationship with your shareholders, who and what are your shareholders, and how does that relationship work between the shareholders, Sazka management, and the Czech government?*

**AH:** The government grants a license to me, it inspects us and performs overview and oversight of our business. They continually check to make sure that we conduct business to the standards they

require, adhering to laws and regulations at the POS's. They check to make sure that we are accounting correctly, but not whether our costs are justified or not. This is the role of the government, and they, of course, check whether we are levying the good cause money as we are supposed to. Our shareholders are major sports associations in the country. It's a standard European model. Many German lotteries were established in this way, and many Nordic lotteries. They behave as standard investors. They appoint the board – a supervisory board – and they are looking at whether there is a return on their investment. And the board of directors appoints the CEO, me, and I have absolute power vis-à-vis the management, so the board cannot speak or change my decisions about whom I am going to appoint to positions of employment, but they approve my budget. And I am responsible for meeting the budget targets. I can exceed costs as long as I exceed the revenues. Nobody interferes with my schedule of business travel. I decide that.

**PG:** *So profits generated that exceed your targets and after paying dividends or levies required by shareholders and good causes, do you have the authority to invest those in, well, in whatever business you want?*

**AH:** Exactly. The investment budget is approved by the board, so big deals – big business deals are approved within the budget. So as long as I have money in the budget and if I decide to buy a nuclear power plant, I'll do it. With one exception, I am not allowed to buy and sell real estate without the approval of the board. And I am not allowed to pay sponsor money, to sponsor anybody without approval of the board. The rest I can do whatever I deem useful. So if I decide to buy GTECH, as long as the money is in the budget and it is on the account, I can do it. This is, of course, only hypothetical. I would always get agreement from the board on deals of such size. But publicity costs or agreements, even very large supplier contracts, those are totally my responsibility. Not the government, not even my board of directors interferes with how I run the business.

**PG:** *So just like the chief executive of a private corporation, your primary mission is to maximize shareholder value.*

**AH:** Of course there are two things on top of this. Good causes is the primary interest of the shareholders, because it is they who are the beneficiaries of all the good causes, 100% of the good cause revenue goes to them. But this is their agreement with the government; we have nothing to do with it.

**PG:** *So are you given some kind of financial target that you need to fulfill with respect to proceeds given to the good causes?*

**AH:** Yes, and it keeps going up! Very strict. This is the only thing they are interested in. Of course, they are also interested in how the company is running. They do want to know that we are

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*Dianne Thompson Interview* ...continued from page 6

in the UK. It stands for Fast Moving Consumer Goods. It's a classic way of measuring the size of a brand in the UK, say like Coca Cola or Chocolate bars or whatever. So to have four of the top ten brands in the country in terms of sales is really quite an achievement when you consider some of the massive brands we're competing with. In my opinion you can't run a business this size by being a follower, you have to be a leader. And we've worked very hard to achieve that – driving change in the business is the only way we've stayed in growth, and it certainly is the way I see the future for Camelot – we will continue to push boundaries and drive innovation. We certainly won't be sitting back and resting on our laurels just because the business is in good shape.

**PG:** *On hindsight what you describe seems sensible and, well, pretty obvious. But I would think it is not always so obvious from in front of the curve when you're saying you want to invest resources and shareholder profits on things that haven't been tried and true. The inspiration to innovate is actually a very hard thing to act on, isn't it?*

**DT:** Yes, it is. And of course, we're a private company with five shareholders who each hold a 20% stake. It's been a question of working with them to take some of the calculated risks that we have done. I've been very fortunate that we've got some very good, very supportive shareholders – but to be honest although a lot of the ideas are through ambitious plans and a can-do attitude within the business and our people having really good ideas, we also haven't ever been reckless in our business strategies or in our developments. We will back up any of our ideas about what will work with thorough research, both qualitative and quantitative, to mitigate any risks. But it's by innovation that we succeed – and by definition being innovative means being a leader and doing things that haven't been tested before.

We're amongst the most efficient lotteries in the world in terms of proportion of the pound that goes back to society – that's Good Causes and tax receipts. We rank 4th in the world in terms of total sales, 47th in per capita spend – so we have lots of people playing and spending small amounts of money; and return over 40% of revenue to society. That's not a bad place to be in at all in my view, and we are there because we drive efficiencies through the business all the time. I'm really lucky – I run a company that turns over roughly five billion pounds a year. But we employ less than 1,000 people, so I know virtually everybody who works for Camelot. So we've got the resources of a very big company, but the culture of a very small company, and there's a real can-do culture here, with people who really want us to succeed. It's great.

**PG:** *That is a huge business with a very lean management structure. How do you as a manager allocate your time? Is there a short list of key indices that you follow, and delegate everything else, or do you have to be 'hands on' in everything that happens at Camelot?*

**DT:** I'm not hands on with everything that goes on, I can't be – too much happens on a daily basis for that to be possible. But I do have to know about everything, because not only am I the public face of Camelot, and so an interview like this today you could ask me about anything and I would be expected to know the answer, but also the buck stops with me. I have to be involved in every aspect of the business to know what is going on and to make sure that we're doing things right and taking this national institution – because that's what the National Lottery is in Britain now – in the right direction. But I also have a very, very clear attitude towards delegation. I'm very lucky, I've got a fantastic team of people who work for me. And now, as we've become more successful, it's easier to attract really good talent into the business.

A lot of people are threatened by employing people who are ambitious or more talented than they are. But the stronger my senior team is, and the stronger their teams are in turn, the less I need to worry about every single thing that happens, because I know I can trust them to do a great job. And equally, I trust them to come to me if they think I need to be aware of anything in their areas or they need me to become more heavily involved in a particular project or situation.

My view is that I empower you to do your job, because if you don't take some risks and don't try new things we'd never get anywhere. If you make the same mistake twice however, then I won't be too happy.

But people have to have responsibility to be able develop themselves and develop the business, so we have an open door policy, this is about the only office in the building. We have some meeting rooms of course, and I do have my own office which I have to use sometimes, but most of the time I work outside at one of the open plan desks. People know they can contact me at any time. They can drop me emails or just ring up my PA Linda and say, "Can I pop in for five minutes?" – and if it's convenient then I'll always say yes. So we have a very, very open culture here. And people feel really part of it. We want everyone to know that what they do can really make a difference, we promote that sense of empowerment, and I like to think our people feel that in their day to day working lives here.

**PG:** *I would expect that your successful track record has resulted in your board giving you more freedom and latitude and authority to make increasingly important, perhaps even risky, management and strategic decisions. But I would also suspect that it wasn't necessarily always that way.*

**DT:** No, it wasn't. But it's not quite like that now either. We do have to lead and to try new avenues to continue pushing innovation and to keep the lottery fresh and exciting for our players. But as we were discussing, we only take very calculated risks and will do everything we can to mitigate any potential issues before we even approach our shareholders with our business strategy and game plans.

## Dianne Thompson Interview

But on top of that we are also very heavily regulated here in the UK. We've got literally thousands of regulatory requirements that we have to adhere to. In the very early days our regulator, the National Lottery Commission (NLC) was responsible for regulating something that was unknown because we hadn't had a lottery here in the UK for about 160 years. So, quite rightly, they stayed very tight and very close to us, and everything we did we had to have their permission. Gradually over time, as you say, there's an element of trust that builds up after we established a proven track record of running the lottery in an efficient and responsible way. And so, for example, when we first launched, every single game including each and every new scratch card that we launched, we had to apply for a license for it. Which not only was costly, but also time consuming and very labour-intensive. We have now moved on to what's called a Class License, and so if we're launching a scratch card that's within the parameters of what we normally do, then the Class License covers it. It's only when we're going outside of what we normally do that we need to apply for a new licence again. So I think over time it's evolved, hasn't it, Ben?

Ben Rosier, Head of Media Relations, Camelot (BR): Absolutely. And we're rotating between 40 and 45 new scratch cards a

year, obviously they're constantly being refreshed and that's partly as a result of Dianne's drive to innovate across the business.

DT: Yes. And to go back to where we very first started. 70% of the people who play our games don't participate in any other form of gaming and for them it's a harmless flutter. However we still do operate in a very, very competitive market be it for the pound in someone's pocket at retail or on the Internet, where gaming is more of a common pastime. We give so much money to the Good Causes as well as operating on a different tax regime to other forms of gaming in the UK, so we pay more in tax to the government. So we can't offer the same ratios in terms of prize payout percentages as gaming companies can, but the way we can keep our sales successful is to actually have things on offer that people want to do, to create the games that people really will want to play.

PG: Is prize payout the dominant driver for the lottery player, what are the buyer motives you try to appeal to, and what image are you trying to project?

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